

**Tennessee Board of Regents  
Tennessee State University**

**For the Year Ended  
June 30, 2000**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

March 8, 2001

The Honorable Don Sundquist, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

The Honorable Charles W. Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, Tennessee 37217  
and

Dr. James A. Hefner, President  
Tennessee State University  
3500 John A. Merritt Boulevard  
Nashville, Tennessee 37209

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee State University, for the year ended June 30, 2000. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/cj  
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State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee State University**  
For the Year Ended June 30, 2000

## AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## COMPLIANCE FINDING

### **The University Did Not Report Pell Payment Data to the Department of Education (ED) Within the Required Time Frame**

Pell Payment Data was not reported to the federal government as required. For 30 of 42 students whose Pell Payment Data was tested (71.43%), the university did not report Pell Payment Data to ED within 30 days of disbursement to students. Discussions with university personnel revealed that the university had not sent any Pell Payment Data for the spring and summer 2000 terms. The Financial Aid Office was unaware that the Pell Payment Data had not been reported until ED contacted the office in October 2000 because the university's authorization level was out of balance with the payments that had been reported. If the problems cannot be resolved, the university may be unable to receive full reimbursement for all of the Pell aid that was awarded.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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**Audit Report  
Tennessee Board of Regents  
Tennessee State University  
For the Year Ended June 30, 2000**

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**Tennessee Board of Regents  
Tennessee State University  
For the Year Ended June 30, 2000**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**BACKGROUND**

Tennessee State University was first established as the Agricultural and Industrial State Normal School on June 19, 1912, through an act of the Tennessee General Assembly. In 1922, the institution was raised to the status of a four-year teachers’ college and was empowered to grant the bachelor’s degree. In August 1951, the State Board of Education granted the institution university status. The university was elevated to a land-grant university by the State Board of Education in August 1958. The land-grant university program established a School of Agriculture and Home Economics, School of Engineering, School of Arts and Sciences, School of Education, Graduate School, Division of Business, Division of Extension and Continuing Education, and Department of Aerospace Studies. The university is supported by state and federal funds, the latter in accordance with the Morrill Act and other federal acts that provide for land-grant institutions.

**ORGANIZATION**

The governance of Tennessee State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 1999, through June 30, 2000, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2000, and for comparative purposes, the year ended June 30, 1999. Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.**



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## **PRIOR AUDIT FINDINGS**

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on August 10, 2000. A follow-up of all prior audit findings was conducted as part of the current audit.

## **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the university has corrected previous audit findings concerning equipment inventory records, financial aid overawards, Debitek vending machines, the Bursar's office, and outside security guards.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2000, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. A reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the finding and recommendation.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
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**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

November 22, 2000

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 2000, and have issued our report thereon dated November 22, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note one immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted certain other less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- The university did not report Pell Payment Data to the Department of Education within the required time frame

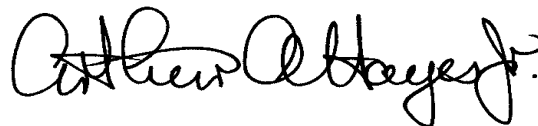
This condition is described in the Finding and Recommendation section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/cj

## FINDING AND RECOMMENDATION

### **The university did not report Pell Payment Data to the Department of Education within the required time frame**

#### **Finding**

Pell Payment Data was not reported to the federal government as required. Pell Payment Data is the term used to refer to the electronic or magnetic payment record used to report to the U.S. Department of Education (ED) the Pell payments to students. The record contains various information about each student, including enrollment status and disbursement information. Chapter 3 of the Pell portion of the *Student Financial Aid Handbook* specifies the reporting deadline as follows:

A school must submit a disbursement record within 30 days of the date the school becomes aware of a Pell change (for example, a new recipient, or an increased award). Schools may do this by reporting once every 30 calendar days (or more frequently), or may set up their own system to ensure that changes are reported in a timely manner.

If a school doesn't report any data for a period of 30 or more calendar days, the Department will consider that the school had no data to report for that period, and any actions (such as changes in authorization levels) will be based only on the data reported up to that time.

For 30 of 42 students whose Pell Payment Data was tested (71.43%), the university did not report Pell Payment Data to ED within 30 days of disbursement to students. Discussions with university personnel revealed that the university had not sent any Pell Payment Data for the spring and summer 2000 terms. The university's technical support person and financial aid director left during March and May 2000, respectively, and there was no other person with experience that fully understood the Recipient Financial Management Service, which is used to report Pell Payment Data. The Financial Aid Office was unaware that the Pell Payment Data had not been reported until ED contacted the office in October 2000 because the university's authorization level was out of balance with the payments that had been reported.

When the failure to report was brought to the university's attention, the university requested administrative relief from the U.S. Department of Education and was given a deadline of December 29, 2000, to submit the required data in order to receive payment for the Pell grants that had been awarded. Pell Payment Data was submitted for spring and summer 2000. ED has accepted the information for summer 2000, but the university is still working with ED to resolve reconciliation problems with the information for spring 2000. If the problems cannot be resolved

by the deadline, the university may be unable to receive full reimbursement for all of the Pell aid that was awarded.

### **Recommendation**

The Financial Aid staff should monitor Pell reporting more closely to ensure that Pell Payment Data is reported within the time frame required. Policies and procedures should be reviewed to ensure that proper reporting requirements have been established.

### **Management's Comment**

We concur with the finding and recommendation. Procedures have been implemented which establish routine, regular reporting of Pell Payment Data. We submit origination records on the first and fifteenth of each month (or the closest weekday). Once the origination records are returned, we submit the disbursement records. We have also hired a full-time Counselor/Technical Support staff member effective February 1, 2001.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
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NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 741-3697  
FAX (615) 532-2765**

**Independent Auditor's Report**

November 22, 2000

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2000, and June 30, 1999, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

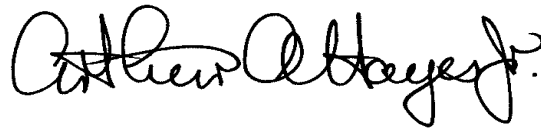
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Tennessee State University, as of June 30, 2000, and June 30, 1999, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

The Honorable John G. Morgan  
November 22, 2000  
Page Two

As discussed in Note 13, the university changed the threshold for capitalizing equipment. Also, as discussed in Note 14, the university implemented GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2000, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/cj

TENNESSEE BOARD OF REGENTS  
TENNESSEE STATE UNIVERSITY  
BALANCE SHEETS  
JUNE 30, 2000, AND JUNE 30, 1999

	June 30, 2000	June 30, 1999		June 30, 2000	June 30, 1999
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 2 and 3)	\$ 6,934,032.80	\$ 718,231.09	Liabilities:		
Investments (Note 4)	10,999,826.12	11,987,958.00	Accounts payable	\$ 478,055.14	\$ 682,357.43
Accrued interest receivable	850,366.89	1,193,257.39	Accrued liabilities	5,325,534.05	4,318,905.22
Accounts receivable (net of allowance of \$601,664.92 at June 30, 2000, and \$412,310.70 at June 30, 1999)	1,645,938.24	1,628,428.25	Deferred revenue	3,704,533.08	3,610,825.05
Inventories	47,084.62	38,491.57	Student deposits	524,240.20	429,095.20
Due from endowment and similar funds	6,327.06	3,885.06	Compensated absences	3,200,687.71	3,209,385.90
			Other liabilities	391,973.44	1,088,387.25
			Total liabilities	13,625,023.62	13,338,956.05
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	1,282,490.72	1,166,532.94
			Allocation for encumbrances	1,805,649.73	1,887,533.26
			Allocation for designated appropriations	163,836.72	165,255.10
			Allocation for technology access fee	856,980.00	-
			Discretionary allocations:		
			Allocation for subsequent budget	3,901,000.00	1,796,502.95
			Allocation for state appropriations reversion	1,658,300.00	-
			Allocation for athletic contingency	-	71,920.51
			Allocation for compensated absences	(3,200,687.71)	(3,209,385.90)
			Unallocated	390,982.65	352,936.45
			Total fund balances	6,858,552.11	2,231,295.31
Total general	20,483,575.73	15,570,251.36	Total general	20,483,575.73	15,570,251.36
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	3,032,682.99	2,527,943.64	Liabilities:		
Accounts receivable (net of allowance of \$1,572.42 at June 30, 2000, and June 30, 1999)	318,482.02	302,842.44	Accounts payable	129,401.42	80,379.47
			Compensated absences	111,584.61	110,499.87
			Total liabilities	240,986.03	190,879.34
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	318,982.02	303,342.44
			Allocation for encumbrances	252,861.89	40,401.21
			Discretionary allocation:		
			Allocation for contingencies	576,220.00	508,680.41
			Allocation for compensated absences	(111,584.61)	(110,499.87)
			Unallocated	2,073,699.68	1,897,982.55
			Total fund balances	3,110,178.98	2,639,906.74
Total auxiliary enterprises	3,351,165.01	2,830,786.08	Total auxiliary enterprises	3,351,165.01	2,830,786.08
Total unrestricted	23,834,740.74	18,401,037.44	Total unrestricted	23,834,740.74	18,401,037.44
Restricted:			Restricted:		
Cash and cash equivalents (Notes 2 and 3)	1,264,392.94	524,586.84	Liabilities:		
Accrued interest receivable	2,057.20	2,056.85	Accounts payable	447,928.51	429,474.75
Accounts and grants receivable	4,056,324.49	4,073,859.54	Due to grantors	1,361.00	276,347.00
			Total liabilities	449,289.51	705,821.75
			Fund balance	4,873,485.12	3,894,681.48
Total restricted	5,322,774.63	4,600,503.23	Total restricted	5,322,774.63	4,600,503.23
Total current funds	\$ 29,157,515.37	\$ 23,001,540.67	Total current funds	\$ 29,157,515.37	\$ 23,001,540.67
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 397,774.94	\$ 346,529.28	Fund balances:		
Notes receivable (net of allowance of \$1,074,014.86 at June 30, 2000, and \$1,124,653.18 at June 30, 1999)	1,680,264.19	2,259,521.76	U.S. government grants refundable	\$ 2,090,355.40	\$ 2,561,743.49
Accrued interest receivable (net of allowance of \$241,840.05 at June 30, 2000, and \$236,670.02 at June 30, 1999)	857,489.18	798,631.55	University funds:		
			Restricted - matching	769,394.67	769,394.67
Total loan funds	\$ 2,935,528.31	\$ 3,404,682.59	Restricted - other	75,778.24	73,544.43
Endowment and similar funds:			Total loan funds	\$ 2,935,528.31	\$ 3,404,682.59
Investments (Notes 3 and 4)	\$ 305,354.35	\$ 292,957.63	Endowment and similar funds:		
Accrued interest receivable	4,978.01	3,637.70	Liabilities:		
			Due to unrestricted current funds	\$ 6,327.06	\$ 3,885.06
			Fund balances:		
			Endowment	60,427.49	\$ 59,928.10
			Quasi-endowment - restricted	243,577.81	232,782.17
			Total fund balances	304,005.30	292,710.27
Total endowment and similar funds	\$ 310,332.36	\$ 296,595.33	Total endowment and similar funds	\$ 310,332.36	\$ 296,595.33



TENNESSEE BOARD OF REGENTS  
TENNESSEE STATE UNIVERSITY  
BALANCE SHEETS  
JUNE 30, 2000, AND JUNE 30, 1999

<u>ASSETS</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	\$ 1,141,661.42	\$ 904,475.07	Liabilities:		
LGIP deposit - capital projects	90,013.80	407,273.10	Accounts payable	\$ 799.68	\$ 257,805.25
Funds on deposit with state treasurer	20,284.79	-			
Accounts receivable	48,435.60	194,454.68	Fund balance:		
			Unrestricted (Note 5)	1,299,595.93	1,248,397.60
Total unexpended plant	1,300,395.61	1,506,202.85	Total unexpended plant	1,300,395.61	1,506,202.85
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	4,423,485.53	3,244,274.53	Liabilities:		
			Accounts payable	1,800.00	-
			Fund balance:		
			Unrestricted (Note 5)	4,421,685.53	3,244,274.53
Total renewals and replacements	4,423,485.53	3,244,274.53	Total renewals and replacements	4,423,485.53	3,244,274.53
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	585,656.10	284,532.08	Liabilities:		
Interest rate reserve with Tennessee			Accrued liabilities	9,292.03	-
State School Bond Authority (Note 6)	13,364.96	12,033.78	Accrued interest payable	170,908.04	164,530.69
Accrued interest receivable	11,105.78	42,161.90			
			Total liabilities	180,200.07	164,530.69
			Fund balance:		
			Unrestricted	429,926.77	174,197.07
Total retirement of indebtedness	610,126.84	338,727.76	Total retirement of indebtedness	610,126.84	338,727.76
Investment in plant:			Investment in plant:		
Land	9,525,009.24	8,872,355.24	Liabilities:		
Buildings	126,352,854.02	87,035,344.21	Note payable (Note 6)	131,873.88	197,810.83
Improvements other than buildings	43,684,591.55	39,575,164.16	Tennessee State School Bond Authority		
Equipment	18,498,540.68	32,799,485.13	indebtedness (Note 6)	21,642,467.29	22,313,498.47
Livestock	77,717.91	33,510.27			
Library books	24,058,272.00	23,489,232.00	Total liabilities	21,774,341.17	22,511,309.30
Other library holdings	3,961,803.00	3,763,375.00	Fund balance:		
Construction in progress	25,428,304.10	66,996,996.37	Net investment in plant	229,812,751.33	240,054,153.08
Total investment in plant	251,587,092.50	262,565,462.38	Total investment in plant	251,587,092.50	262,565,462.38
Total plant funds	\$ 257,921,100.48	\$ 267,654,667.52	Total plant funds	\$ 257,921,100.48	\$ 267,654,667.52
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 195,618.42	\$ 160,653.02	Liabilities:		
			Accounts payable	\$ 2,702.70	\$ 1,136.40
			Deposits held in custody for others	192,915.72	159,516.62
Total nonfoundation funds	195,618.42	160,653.02	Total nonfoundation funds	195,618.42	160,653.02
Foundation funds:			Foundation funds:		
Cash and cash equivalents (Notes 2 and 3)	958,647.96	1,254,511.45	Liabilities:		
Investments (Note 4)	1,480,802.00	1,517,533.00	Accounts payable	2,473.61	10,518.47
Accrued interest receivable	3,576.00	3,349.00	Deposits held in custody for foundation	2,440,552.35	2,764,874.98
Total foundation funds	2,443,025.96	2,775,393.45	Total foundation funds	2,443,025.96	2,775,393.45
Total agency funds	\$ 2,638,644.38	\$ 2,936,046.47	Total agency funds	\$ 2,638,644.38	\$ 2,936,046.47

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
TENNESSEE STATE UNIVERSITY  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds			Endowment and	Plant Funds			
	Unrestricted	Restricted	Loan Funds	Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>								
Unrestricted current fund revenues	\$ 76,969,981.94	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	11,522,522.83	-	-	-	-	-	-	-
State appropriations	-	713,800.00	-	-	1,459,184.58	-	40,246.24	-
Federal grants and contracts	-	30,314,606.20	13,076.00	-	705,108.14	-	-	-
State grants and contracts	-	1,175,334.87	-	-	-	-	-	-
Local grants and contracts	-	1,284,984.58	-	-	-	-	-	-
Private gifts, grants, and contracts	-	1,088,661.92	7,410.70	-	-	-	-	48,785.00
Endowment income	-	5,067.35	-	-	-	-	-	-
Investment income	-	-	11,762.19	11,295.03	-	-	43,273.66	-
Interest on loans receivable	-	-	137,231.39	-	-	-	-	-
Reduction in doubtful accounts	-	-	34,799.34	-	-	-	-	-
Debt proceeds	-	-	-	-	582,264.53	-	-	-
Equipment use charges	-	-	-	-	-	480,000.00	-	-
Expended for plant facilities (including \$2,820,846.14 charged to current fund expenditures)	-	-	-	-	-	-	-	5,171,477.07
Retirement of indebtedness	-	-	-	-	-	-	-	1,151,157.31
Other (Note 10)	-	-	12,311.85	-	-	-	423,587.09	104,826.62
Total revenues and other additions	88,492,504.77	34,582,454.92	216,591.47	11,295.03	2,746,557.25	480,000.00	507,106.99	6,476,246.00
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>								
Educational and general expenditures	72,036,671.69	31,815,649.29	-	-	-	-	-	-
Auxiliary enterprise expenditures	8,729,967.40	158,125.99	-	-	-	-	-	-
Indirect costs recovered	-	1,589,499.02	-	-	-	-	-	-
Refunded to grantors	-	40,376.98	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	28,371.07	-	-	-	-	-
Administrative and collection costs	-	-	12,900.79	-	-	-	36,831.59	-
Provision for doubtful accounts	-	-	642,547.04	-	-	-	-	-
Expended for plant facilities	-	-	-	-	2,350,630.93	-	-	-
Expended for noncapital items	-	-	-	-	208,662.14	43,659.00	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,151,157.31	-
Interest on indebtedness	-	-	-	-	-	-	1,082,675.00	-
Disposal of plant facilities	-	-	-	-	-	-	-	1,693,916.18
Increase in indebtedness	-	-	-	-	-	-	-	298,469.77
Library holdings revaluation	-	-	-	-	-	-	-	90,518.79
Other	-	-	1,926.85	-	4,045.88	-	-	115,719.41
Total expenditures and other deductions	80,766,639.09	33,603,651.28	685,745.75	-	2,563,338.95	43,659.00	2,270,663.90	2,198,624.15

TENNESSEE BOARD OF REGENTS  
TENNESSEE STATE UNIVERSITY  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted			Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>								
<u>(DEDUCTIONS)</u>								
Mandatory:								
Principal and interest	(1,349,193.33)	-	-	-	-	-	1,349,193.33	-
Nonmandatory:								
Unrestricted current funds	780,000.00	-	-	-	(780,000.00)	-	-	-
Unexpended plant	(411,490.00)	-	-	-	647,980.03	-	(236,490.03)	-
Renewals and replacements	(741,070.00)	-	-	-	-	741,070.00	-	-
Retirement of indebtedness	(906,583.31)	-	-	-	-	-	906,583.31	-
Total transfers	<u>(2,628,336.64)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(132,019.97)</u>	<u>741,070.00</u>	<u>2,019,286.61</u>	<u>-</u>
Net increases (decrease) for the year	<u>5,097,529.04</u>	<u>978,803.64</u>	<u>(469,154.28)</u>	<u>11,295.03</u>	<u>51,198.33</u>	<u>1,177,411.00</u>	<u>255,729.70</u>	<u>4,277,621.85</u>
Fund balances at beginning of year	4,871,202.05	3,894,681.48	3,404,682.59	292,710.27	1,248,397.60	3,244,274.53	174,197.07	240,054,153.08
Cumulative effect of change in accounting principle (Note 13)	-	-	-	-	-	-	-	(14,519,023.60)
Fund balances at beginning of year, as restated	<u>4,871,202.05</u>	<u>3,894,681.48</u>	<u>3,404,682.59</u>	<u>292,710.27</u>	<u>1,248,397.60</u>	<u>3,244,274.53</u>	<u>174,197.07</u>	<u>225,535,129.48</u>
Fund balances at end of year	<u>\$ 9,968,731.09</u>	<u>\$ 4,873,485.12</u>	<u>\$ 2,935,528.31</u>	<u>\$ 304,005.30</u>	<u>\$ 1,299,595.93</u>	<u>\$ 4,421,685.53</u>	<u>\$ 429,926.77</u>	<u>\$ 229,812,751.33</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
TENNESSEE STATE UNIVERSITY  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>								
Unrestricted current fund revenues	\$ 71,846,004.57	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	10,173,608.15	-	-	-	-	-	-	-
State appropriations	-	711,800.00	-	-	4,248,612.35	-	39,837.75	-
Federal grants and contracts	-	29,670,980.35	-	-	93,122.60	-	-	-
State grants and contracts	-	1,180,659.44	-	-	-	-	-	-
Local grants and contracts	-	1,470,670.07	-	-	-	-	-	-
Private gifts, grants, and contracts	-	792,150.15	3,426.00	-	-	-	-	4,718.00
Endowment income	-	5,959.55	-	-	-	-	-	-
Investment income	-	-	8,946.54	8,766.82	-	7,873.05	128,375.78	-
Interest on loans receivable	-	-	141,079.09	-	-	-	-	-
Reduction in doubtful accounts	-	-	2,900.75	-	-	-	-	-
Debt proceeds	-	-	-	-	3,281,913.94	-	-	-
Equipment use charges	-	-	-	-	-	238,750.00	-	-
Expended for plant facilities (including \$4,188,783.49 charged to current fund expenditures)	-	-	-	-	-	-	-	10,824,745.95
Retirement of indebtedness	-	-	-	-	-	-	-	1,196,917.13
Debt decrease from bond refunding	-	-	-	-	-	-	-	347,954.67
Other	-	-	11,453.40	-	-	-	200,000.00	59,018.37
Total revenues and other additions	82,019,612.72	33,832,219.56	167,805.78	8,766.82	7,623,648.89	246,623.05	368,213.53	12,433,354.12
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>								
Educational and general expenditures	71,192,180.99	31,365,590.90	-	-	-	-	-	-
Auxiliary enterprise expenditures	8,387,552.13	248,580.83	-	-	-	-	-	-
Indirect costs recovered	-	1,526,866.64	-	-	-	-	-	-
Refunded to grantors	-	30,292.91	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	23,560.47	-	-	-	-	-
Administrative and collection costs	-	-	3,471.86	-	-	-	24,169.57	-
Provision for doubtful accounts	-	-	58,550.05	-	-	-	-	-
Expended for plant facilities	-	-	-	-	6,580,592.32	55,370.14	-	-
Expended for noncapital items	-	-	-	-	1,404,407.03	103,264.05	-	-
Net decrease in the fair value of investments	-	-	-	-	-	4,287.66	5,792.46	-
Retirement of indebtedness	-	-	-	-	-	-	1,196,917.13	-
Interest on indebtedness	-	-	-	-	-	-	1,166,014.70	-
Disposal of plant facilities	-	-	-	-	-	-	-	214,300.18
Increase in indebtedness	-	-	-	-	-	-	-	3,986,392.24
Library holdings revaluation	-	-	-	-	-	-	-	35,682.60
Decrease in debt service reserve	-	-	-	-	-	-	-	377,408.24
Other	-	-	3,562.87	-	82,598.23	-	-	-
Total expenditures and other deductions	79,579,733.12	33,171,331.28	89,145.25	-	8,067,597.58	162,921.85	2,392,893.86	4,613,783.26

TENNESSEE BOARD OF REGENTS  
TENNESSEE STATE UNIVERSITY  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted			Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u> <u>(DEDUCTIONS)</u>								
Mandatory:								
Principal and interest	(1,580,653.23)	-	-	-	-	-	1,580,653.23	-
Nonmandatory:								
Unexpended plant	(172,850.00)	-	-	-	347,850.00	-	(175,000.00)	-
Renewals and replacements	(384,810.00)	-	-	-	-	542,011.48	(157,201.48)	-
Retirement of indebtedness	(409,493.82)	-	-	-	-	-	409,493.82	-
Total transfers	<u>(2,547,807.05)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>347,850.00</u>	<u>542,011.48</u>	<u>1,657,945.57</u>	<u>-</u>
Net increases (decreases) for the year	(107,927.45)	660,888.28	78,660.53	8,766.82	(96,098.69)	625,712.68	(366,734.76)	7,819,570.86
Fund balances at beginning of year (Note 14)	<u>4,979,129.50</u>	<u>3,233,793.20</u>	<u>3,326,022.06</u>	<u>283,943.45</u>	<u>1,344,496.29</u>	<u>2,618,561.85</u>	<u>540,931.83</u>	<u>232,234,582.22</u>
Fund balances at end of year	<u>\$ 4,871,202.05</u>	<u>\$ 3,894,681.48</u>	<u>\$ 3,404,682.59</u>	<u>\$ 292,710.27</u>	<u>\$ 1,248,397.60</u>	<u>\$ 3,244,274.53</u>	<u>\$ 174,197.07</u>	<u>\$ 240,054,153.08</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
TENNESSEE STATE UNIVERSITY  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 2000

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<b><u>REVENUES</u></b>			
Tuition and fees	\$ 35,403,500.99	\$ 16,079.74	\$ 35,419,580.73
State appropriations	36,336,700.00	743,551.01	37,080,251.01
Federal grants and contracts	1,568,511.32	28,371,521.91	29,940,033.23
State grants and contracts	11,800.62	1,132,594.33	1,144,394.95
Local grants and contracts	1,000.00	756,688.99	757,688.99
Private gifts, grants, and contracts	9,669.64	795,213.31	804,882.95
Investment income	1,241,870.78	-	1,241,870.78
Sales and services of educational activities	2,141,608.72	-	2,141,608.72
Sales and services of auxiliary enterprises	11,522,522.83	158,125.99	11,680,648.82
Other sources	255,319.87	-	255,319.87
Total current revenues	<u>88,492,504.77</u>	<u>31,973,775.28</u>	<u>120,466,280.05</u>
<b><u>EXPENDITURES AND TRANSFERS</u></b>			
Educational and general:			
Expenditures:			
Instruction	33,430,633.33	8,819,908.15	42,250,541.48
Research	1,598,026.16	8,891,056.69	10,489,082.85
Public service	927,805.09	3,771,099.61	4,698,904.70
Academic support	5,578,138.40	738,897.61	6,317,036.01
Student services	9,509,118.28	672,277.60	10,181,395.88
Institutional support	8,314,755.16	449,760.66	8,764,515.82
Operation and maintenance of plant	7,006,967.84	1,496.47	7,008,464.31
Scholarships and fellowships	5,671,227.43	8,471,152.50	14,142,379.93
Total educational and general expenditures	<u>72,036,671.69</u>	<u>31,815,649.29</u>	<u>103,852,320.98</u>
Mandatory transfer for:			
Principal and interest	179,470.14	-	179,470.14
Nonmandatory transfers for:			
Unexpended plant	(780,000.00)	-	(780,000.00)
Retirement of indebtedness	906,583.31	-	906,583.31
Total educational and general	<u>72,342,725.14</u>	<u>31,815,649.29</u>	<u>104,158,374.43</u>
Auxiliary enterprises:			
Expenditures	8,729,967.40	158,125.99	8,888,093.39
Mandatory transfer for:			
Principal and interest	1,169,723.19	-	1,169,723.19
Nonmandatory transfers for:			
Unexpended plant	411,490.00	-	411,490.00
Renewals and replacements	741,070.00	-	741,070.00
Total auxiliary enterprises	<u>11,052,250.59</u>	<u>158,125.99</u>	<u>11,210,376.58</u>
Total expenditures and transfers	<u>83,394,975.73</u>	<u>31,973,775.28</u>	<u>115,368,751.01</u>
<b><u>OTHER ADDITION (DEDUCTIONS)</u></b>			
Excess of restricted receipts over			
transfers to revenues	-	2,608,679.64	2,608,679.64
Indirect costs recovered	-	(1,589,499.02)	(1,589,499.02)
Refunded to grantors	-	(40,376.98)	(40,376.98)
Net increases in fund balances	<u>\$ 5,097,529.04</u>	<u>\$ 978,803.64</u>	<u>\$ 6,076,332.68</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
TENNESSEE STATE UNIVERSITY  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1999

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<b><u>REVENUES</u></b>			
Tuition and fees	\$ 32,019,825.65	\$ 20,116.14	\$ 32,039,941.79
State appropriations	35,596,500.00	456,776.14	36,053,276.14
Federal grants and contracts	1,498,608.90	27,899,687.87	29,398,296.77
State grants and contracts	12,597.61	1,164,373.02	1,176,970.63
Local grants and contracts	5,128.00	899,055.53	904,183.53
Private gifts, grants, and contracts	11,489.13	925,582.20	937,071.33
Investment income	1,443,153.51	-	1,443,153.51
Sales and services of educational activities	1,179,800.18	-	1,179,800.18
Sales and services of auxiliary enterprises	10,173,608.15	248,580.83	10,422,188.98
Other sources	78,901.59	-	78,901.59
Total current revenues	<u>82,019,612.72</u>	<u>31,614,171.73</u>	<u>113,633,784.45</u>
<b><u>EXPENDITURES AND TRANSFERS</u></b>			
Educational and general:			
Expenditures:			
Instruction	34,703,925.28	9,121,633.29	43,825,558.57
Research	1,784,904.46	8,398,690.00	10,183,594.46
Public service	595,177.13	3,687,537.46	4,282,714.59
Academic support	5,343,674.10	618,768.77	5,962,442.87
Student services	8,609,367.71	919,794.45	9,529,162.16
Institutional support	7,985,486.17	506,672.97	8,492,159.14
Operation and maintenance of plant	7,469,804.57	1,752.99	7,471,557.56
Scholarships and fellowships	4,699,841.57	8,110,740.97	12,810,582.54
Total educational and general expenditures	<u>71,192,180.99</u>	<u>31,365,590.90</u>	<u>102,557,771.89</u>
Mandatory transfer for:			
Principal and interest	513,411.30	-	513,411.30
Nonmandatory transfer for:			
Retirement of indebtedness	409,493.82	-	409,493.82
Total educational and general	<u>72,115,086.11</u>	<u>31,365,590.90</u>	<u>103,480,677.01</u>
Auxiliary enterprises:			
Expenditures			
Mandatory transfer for:			
Principal and interest	1,067,241.93	-	1,067,241.93
Nonmandatory transfers for:			
Unexpended plant	172,850.00	-	172,850.00
Renewals and replacements	384,810.00	-	384,810.00
Total auxiliary enterprises	<u>10,012,454.06</u>	<u>248,580.83</u>	<u>10,261,034.89</u>
Total expenditures and transfers	<u>82,127,540.17</u>	<u>31,614,171.73</u>	<u>113,741,711.90</u>
<b><u>OTHER ADDITION (DEDUCTIONS)</u></b>			
Excess of restricted receipts over			
transfers to revenues	-	2,218,047.83	2,218,047.83
Indirect costs recovered	-	(1,526,866.64)	(1,526,866.64)
Refunded to grantors	-	(30,292.91)	(30,292.91)
Net increase (decrease) in fund balances	<u>\$ (107,927.45)</u>	<u>\$ 660,888.28</u>	<u>\$ 552,960.83</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents  
Tennessee State University  
Notes to the Financial Statements  
June 30, 2000, and June 30, 1999**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**Basis of Presentation**

The financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

**Basis of Accounting**

The financial statements have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement; and (3) nonmandatory transfers, for all other cases.



**Tennessee Board of Regents  
Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2000, and June 30, 1999**

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**Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

**Current Funds**

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include residence halls, the bookstore, food services, the post office, vending, parking, copying services, and telecommunications/student information. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

**Tennessee Board of Regents  
Tennessee State University  
Notes to the Financial Statements (Cont.)  
June 30, 2000, and June 30, 1999**

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Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties; and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

**LGIP Deposit – Capital Projects**

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

**Inventories**

Inventories are valued at the lower of cost or market on a first-in, first-out basis.

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**Compensated Absences**

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

**Allocation for Working Capital**

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

**Plant Assets**

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. Livestock is valued at estimated market value. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

**Interest Costs**

The university has adopted a policy of capitalizing all interest costs for capital projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed.

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**Tennessee State University Foundation**

The university is the sole beneficiary of the Tennessee State University Foundation. This private, nonprofit foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are handled by the university, and the assets and liabilities of the foundation are included in the agency funds on the university's balance sheet.

**Federal Direct Loan Program**

The university participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the university. The university acts as an agent for the U.S. government in disbursing funds to students.

**NOTE 2. CASH AND CASH EQUIVALENTS**

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2000, cash and cash equivalents consisted of \$7,812,711.68 in bank accounts, \$4,050.00 of petty cash on hand, \$10,852,843.62 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$264,347.80 in capital management account money funds. At June 30, 1999, cash and cash equivalents consisted of \$7,553,377.97 in bank accounts, \$2,550.00 of petty cash on hand, \$2,173,970.96 in the State of Tennessee Local Government Investment Pool, and \$235,838.07 in capital management account money funds.

**NOTE 3. DEPOSITS**

The university's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

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The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 100% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 4. INVESTMENTS**

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The Tennessee State University Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The university's/foundation's investments are categorized below to indicate the level of risk assumed by the university/foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university/foundation or its agent in the university's/foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent in the university's/ foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities

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are held by the counterparty or by its trust department or agent but not in the university's/foundation's name.

<u>June 30, 2000</u>	<u>Fair Value</u>
Category 1:	
University:	
U.S. government securities	\$10,999,826.12
Foundation:	
U.S. government securities	332,094.00
Category 2:	
Foundation:	
Corporate bonds	454,133.00
Corporate stocks	554,944.00
Foundation investments not susceptible to credit risk categorization:	
Mutual funds	121,423.00
University certificates of deposit classified as investments	305,354.35
Foundation deposit notes classified as investments	<u>18,208.00</u>
Total investments on the balance sheet	<u>\$12,785,982.47</u>
 <u>June 30, 1999</u>	 <u>Fair Value</u>
Category 1:	
University:	
U.S. government securities	\$11,987,958.00
Foundation:	
U.S. government securities	240,033.00
Category 2:	
Foundation:	
Corporate bonds	595,613.00
Corporate stocks	554,676.00
Foundation investments not susceptible to credit risk categorization:	
Mutual funds	107,811.00
University certificates of deposit classified as investments	292,957.63

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Foundation deposit notes classified as investments	19,400.00
Total investments on the balance sheet	<u>\$13,798,448.63</u>

**NOTE 5. PLANT FUND ENCUMBRANCES**

Plant fund encumbrances outstanding at June 30, 2000, amounted to \$36,903.48 for unexpended plant and \$35,455.00 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1999, amounted to \$149,874.59 for unexpended plant and \$63,774.48 for renewals and replacements.

**NOTE 6. NOTE PAYABLE AND TSSBA INDEBTEDNESS**

The university obtained an interest-free energy loan through the Energy Management Loan Fund within the Tennessee Department of General Services. The loan in the amount of \$329,684.73 to provide financing for the Chiller Replacement Project is payable in annual installments of \$65,936.95 with a final due date of October 2001. The balance owed by the university was \$131,873.88 at June 30, 2000, and \$197,810.83 at June 30, 1999.

Bond issues, with interest rates ranging from 3.65% to 7.00% for Tennessee State School Bond Authority bonds, are due serially to 2028 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the balance sheet is shown net of assets held by the authority in the debt service reserve. The reserve amount was \$1,169,671.51 at June 30, 2000, and June 30, 1999.

The university's debt service requirements to maturity for all notes and bonds payable at June 30, 2000, are as follows:

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Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 1,185,879.24	\$ 966,679.30	\$ 2,152,558.54
2002	927,526.75	939,409.27	1,866,936.02
2003	888,242.78	913,800.31	1,802,043.09
2004	906,212.78	893,220.59	1,799,433.37
2005	864,093.65	869,317.71	1,733,411.36
2006-2028	14,005,755.17	10,119,359.70	24,125,114.87
	<u>\$18,777,710.37</u>	<u>\$14,701,786.88</u>	<u>\$33,479,497.25</u>

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was \$2,996,630.80 at June 30, 2000, and \$2,698,161.03 at June 30, 1999.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

**NOTE 7. PENSION PLANS**

**A. Defined Benefit Plans**

**1. Tennessee Consolidated Retirement System**

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.



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The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 5.43% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2000, 1999, and 1998, were \$1,284,482.71, \$1,336,744.34, and \$879,281.64. Contributions met the requirements for each year.

**2. Federal Retirement Program**

Plan Description - The university contributes to the Federal Retirement Program, a cost-sharing, multiple-employer, defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. All regular full-time employees of the Tennessee State University Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established in federal statutes. Federal statutes are amended by the U.S. Congress. All the university's extension employees currently participate in CSRS.

The CSRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P. O. Box 45, Boyers, Pennsylvania 16017-0045, or by calling (202) 606-0500.

Funding Policy - Participating employees and the university are required to contribute to the CSRS plan. Contribution requirements are established and may be amended by federal statutes. The university is required to contribute

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8.51% of covered payroll to the CSRS plan. From July 1, 1998, through December 31, 1998, participating employees were required to contribute 7% of covered payroll to the CSRS plan. Federal statute increased the employee's rate to 7.25% effective January 1, 1999, and 7.40% effective January 1, 2000. Contributions to CSRS for the year ended June 30, 2000, were \$63,996.69, which consisted of \$34,393.43 from the university and \$29,603.26 from the employees. Contributions for the year ended June 30, 1999, were \$64,644.64, which consisted of \$35,176.21 from the university and \$29,468.43 from the employees. Contributions for the year ended June 30, 1998, were \$51,219.57, which consisted of \$27,532.29 from the university and \$23,687.28 from the employees. Contributions met the requirements for each year.

**B. Defined Contribution Plans**

**Optional Retirement Plans (ORP)**

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was \$2,318,869.29 for the year ended June 30, 2000, and \$2,193,838.53 for the year ended June 30, 1999. Contributions met the requirements for each year.

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**NOTE 8. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 9. CHAIRS OF EXCELLENCE**

The university had \$2,980,899.67 on deposit at June 30, 2000, and \$2,789,451.21 on deposit at June 30, 1999, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

**NOTE 10. OTHER ADDITION**

On the Statement of Changes in Fund Balances for the year ended June 30, 2000, there was an addition of \$423,587.09 in the retirement of indebtedness fund which included \$422,255.91 for telecommunications departmental charges and \$1,331.18 for the change in the interest rate reserve.

**NOTE 11. INSURANCE-RELATED ACTIVITIES**

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. Final settlement has not been made, but the state is expected to receive approximately \$6 million. Of this amount, \$2.5 million has been received to date. No additional claims have been filed with the commercial insurer during the year ended June 30, 2000. In the prior two fiscal years, the state had not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$7.256 million at June 30, 2000, and \$8.219 million at June 30, 1999, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

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At June 30, 2000, the scheduled coverage for the university was \$227,044,600 for buildings and \$28,253,100 for contents. At June 30, 1999, the scheduled coverage was \$229,364,200 for buildings and \$31,553,100 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

## **NOTE 12. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$22,456,195.14 at June 30, 2000, and \$22,692,147.52 at June 30, 1999.

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Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$475,957.96 and for personal property were \$175,067.03 for the year ended June 30, 2000. Comparative amounts for the year ended June 30, 1999, were \$217,147.17 and \$143,130.24. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2000, outstanding commitments under construction contracts totaled \$247,606.69 for the following master plan projects: McMinnville Nursery Research Station, upgrade of various buildings, Boyd Hall renovation, new Performing Arts Building, asbestos/hazardous material, and ADA improvements, which will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

Questioned Costs - As of June 30, 2000, the university had not resolved \$14,244 of questioned costs resulting from the prior audit. Final resolution of these questioned costs will be determined by the grantor.

**NOTE 13. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 2000, the threshold for capitalizing equipment increased from \$1,000 to \$5,000. As a result of the change, equipment decreased by \$14,519,023.60.

**NOTE 14. PRIOR-YEAR RESTATEMENT**

The university implemented GASB Statement 16, *Accounting for Compensated Absences*. As a result, prior-period amounts were restated as noted below:

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<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit A		
Unrestricted general	Compensated absences	\$ 3,209,385.90
Unrestricted general	Allocation for compensated absences	(\$3,209,385.90)
Unrestricted auxiliary	Compensated absences	\$110,499.87
Unrestricted auxiliary	Allocation for compensated absences	(\$110,499.87)
Exhibit C		
Unrestricted	Educational and general expenditures	\$302,497.48
Unrestricted	Auxiliary enterprise expenditures	\$10,942.11
Unrestricted	Beginning fund balance	(\$3,006,446.18)
Exhibit E		
Unrestricted	Instruction	\$45,481.52
Unrestricted	Research	\$120,784.41
Unrestricted	Public service	\$6,146.52
Unrestricted	Academic support	\$51,632.50
Unrestricted	Student services	\$39,396.63
Unrestricted	Institutional support	\$41,902.56
Unrestricted	Operation and maintenance of plant	(\$2,846.66)
Unrestricted	Auxiliary enterprises	\$10,942.11